DAYTON

building on success

Dayton Mining Corporation 1996 Annual Report

Contents

cover shot:

Andacollo crushing plant, night shift

The Company

Dayton Mining Corporation is an international mining company engaged in the world-wide exploration, development and operation of precious metals properties. The Company's principal asset is its 100% owned and operated Andacollo Gold Mine located in central Chile. The Andacollo Gold Mine produced 87,650 ounces of gold at a cash cost of US$205 per ounce during 1996, its first full year of commercial production.

Andacollo is a 16,000 ton (14,500 tonnes) per day open-pit, heap leach operation. An expansion is currently underway to increase crusher throughput to 20,000 tons (18,200 tonnes) per day which is scheduled to be completed in the fourth quarter of 1997.

Dayton's management team is focused on growth. With the Company's strong treasury of US$80 million and assured cash flow, Dayton is well positioned for future growth through mergers, acquisitions and continued exploration at Andacollo.

Dayton Mining Corporation has 40.8 million shares outstanding as of June 30, 1997, which trade under the symbol "DAY" on the Toronto (TSE) and American (AMEX) Stock Exchanges.

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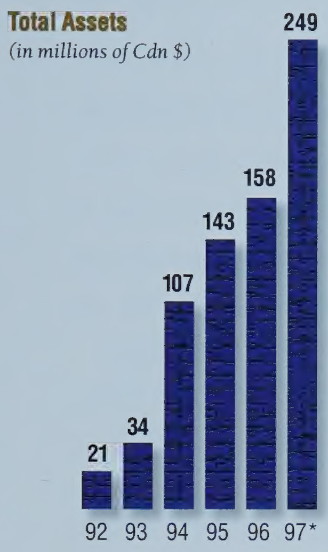
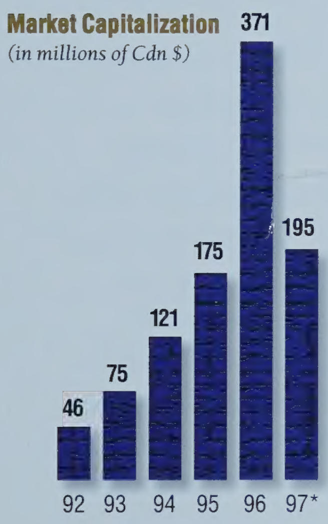
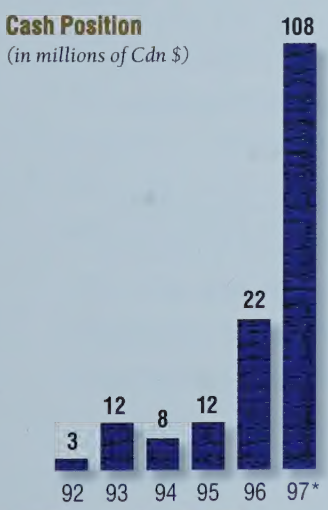
DAYTON

highlights







* 1997 figures at June 30, 1997

1996

- *Commercial Production commenced January 1*
- *$16 Million Equity Issue completed at $6.50 per share*
- *Process Capacity increased by 20%*
- *Three Property Acquisitions completed*
- *$6 million Pad Expansion completed*
- *Labor Dispute resolved*
- *Dayton included on the TSE 200 and 300 Indices*
- *Gold Resource increased by 700,000 ounces*
- *Gold Reserves increased by 240,000 ounces*
- *87,650 ounces of Gold Produced at US$205 per ounce*

1997

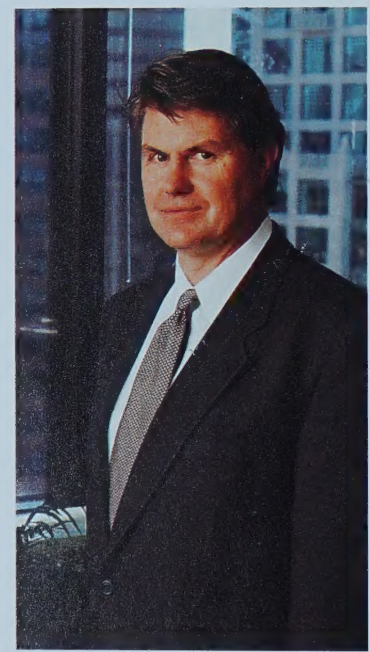
- *US$95 million Convertible Debenture completed*
- *Primary Crusher Modifications completed*
- *Plant and Crusher Expansion commenced*
- *Interim Gold Resource increased by 280,000 ounces*

NOTE: Throughout the report, all prices are in Canadian Dollars (unless specified), and all figures are in metric

Chairman's Report

For Dayton, 1996 was a year of preparation for the future with great exploration success and operational fine-tuning, in spite of some disappointing financial results.

Dayton ranked sixth in 1996 for price performance compared to the thirty two main gold producers in the North American sector. The Company was also included on the TSE 200 and 300 indices during this period.



Wayne D. McClay
Chairman, President and Chief Executive Officer

Finance

Revenues for 1996 were $46 million with cash flow of $9.8 million and a loss for the year of $3.4 million.

In 1996 and the first quarter 1997 in excess of $110 million was raised in two equity financings with Dayton's total assets increasing to $246 million. The combination of these financings and cash flow from Andacollo have produced a cash position of approximately $110 million and a healthy balance sheet which will allow substantial lines of credit to pursue future growth opportunities.

Operations

Dayton's main asset, The Andacollo Gold Mine, completed its first full year of commercial production in 1996 producing 87,650 ounces of gold at a cash cost of US$205 per ounce.

Lower production and slightly higher costs than expected resulted from operational issues that have now been corrected. Lower than anticipated production was impacted by unexpectedly hard, fractured rock in a limited area of Andacollo's main mining area, called the Tres Perlas pit. Oversize rock that resulted from blasts in the area constantly plugged the primary crusher, and ultimately required secondary blasting. A combination of solutions including revised drill and blast patterns, and new explosive types were applied to resolve the blasting issues.

Bechtel Corporation redesigned the front end of the primary crusher, and in February of this year the operation was shut down for two weeks to implement modifications to the original design. Since making the changes, the mine has been achieving record production throughput levels.

As a result of other modifications made to the crushing circuit during 1996, ore throughput capacity was increased by 20% from the design rate to 14,500 tonnes per day. A second phase of expansion will commence in the third quarter of 1997 which will increase throughput a further 25% to 18,200 tonnes per day. This increase in throughput will be achieved through the installation of a third tertiary crusher, with completion expected during the fourth quarter of 1997.

Other modifications to the process plant in 1997 will double the number of carbon tanks which will increase the process plant solution rate from 3,000 to 6,000 gallons per minute. As more solution is added to the pad, the leach cycle is expected to shorten resulting in faster gold recovery. A $5.5 million leach pad expansion was completed during 1996, essentially doubling the size of the pad, which will facilitate greater efficiency in future gold production. The implementation of these long term improvements and other modifications will require several periodic operational shutdowns during 1997 which will have a positive effect on subsequent annual gold production.

Ore can be mined from several different pits at Andacollo which will allow flexibility for mine planning purposes to accommodate fluctuating gold prices.

In December a labor strike was settled with a four year contract on terms considered reasonable by the Company's management.

Dayton's management responded swiftly to each of these issues, and, despite reporting a loss for the year has achieved a number of successes.

Exploration

During 1996, the exploration program at Andacollo increased reserves and resources considerably. The total gold resource increased by 700,000 ounces to just under 3.0 million ounces, and, after replacing ounces that were mined during 1996, the mineable reserves increased by 247,000 ounces to a total of 1.5 million ounces.

The Company has adopted an internal policy of having its reserves audited by an independent party. Denver based Mine Reserves Associates completed an independent audit of all of Dayton's reserves and resources to year-end 1996.

The Future

Dayton's growth strategy consists of optimizing and expanding production at Andacollo and continuing to increase reserves and resources at Andacollo, while aggressively pursuing the acquisition of quality gold assets worldwide

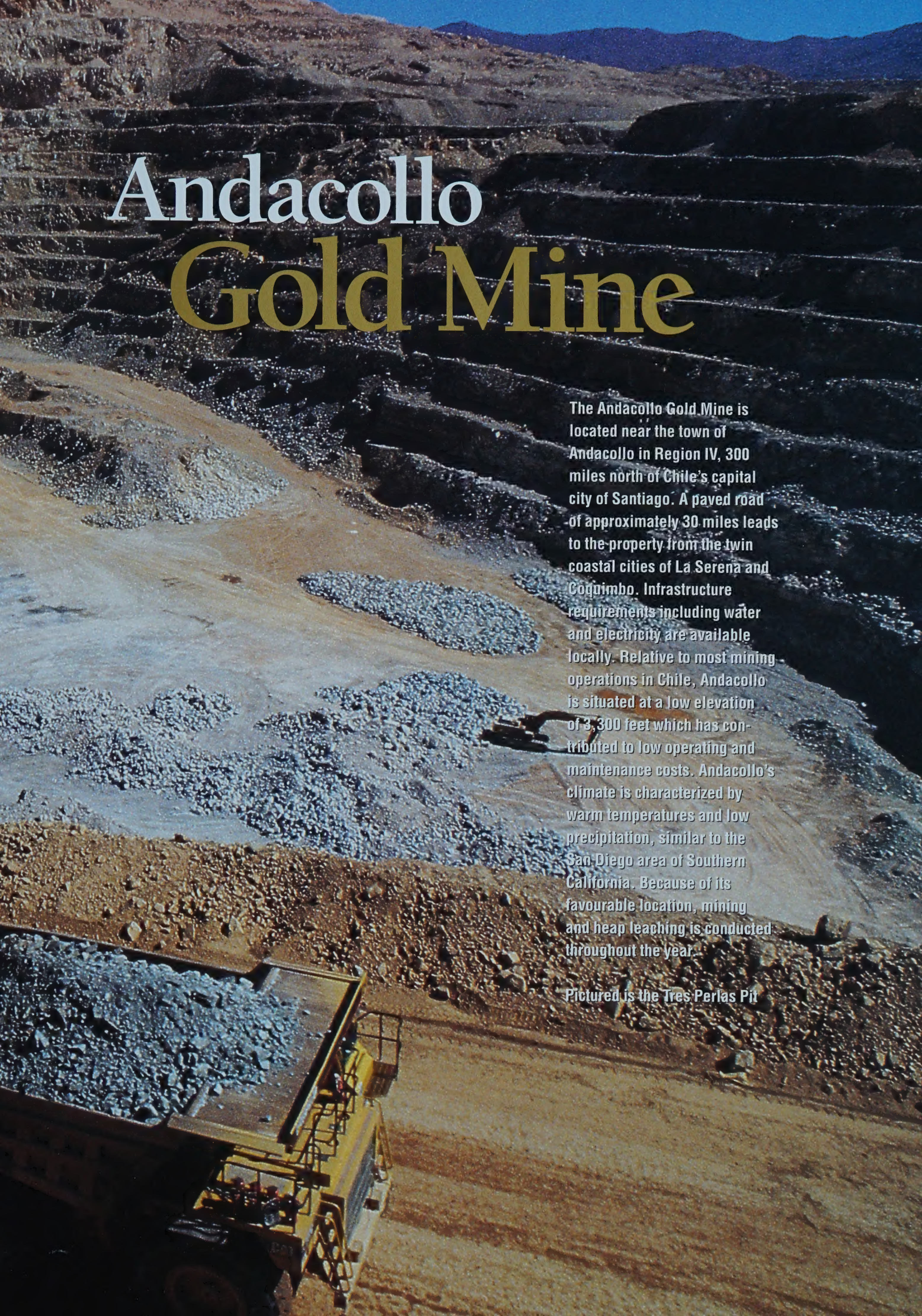
1997 will be a year of continued operational fine-tuning in preparation for Andacollo's future. Capital expenditures for leach pad expansion, plant expansion, mining equipment, and opening new deposits will be financed from cash flow from operations.

In Closing

The efforts, contributions and achievements of Dayton management and staff during a difficult year deserve a special acknowledgement and expression of gratitude.

The exploration results during the year reflect the enthusiasm and energy of the Andacollo exploration department. While presented with a number of operational challenges during the second half of the year, the Andacollo operation team responded and resolved the issues, achieving an annual cash cost of $205 per ounce in spite of the excessive downtime.

The operational improvements implemented in 1996, the expansion that is taking place in 1997, and a healthy balance sheet will all contribute to an extremely productive future. As major shareholders of the Company, Dayton management are absolutely committed to aggressively adding shareholder value.



Andacollo Gold Mine

The Andacollo Gold Mine is located near the town of Andacollo in Region IV, 300 miles north of Chile's capital city of Santiago. A paved road of approximately 30 miles leads to the property from the twin coastal cities of La Serena and Coquimbo. Infrastructure requirements including water and electricity are available locally. Relative to most mining operations in Chile, Andacollo is situated at a low elevation of 3,300 feet which has contributed to low operating and maintenance costs. Andacollo's climate is characterized by warm temperatures and low precipitation, similar to the San Diego area of Southern California. Because of its favourable location, mining and heap leaching is conducted throughout the year.

Pictured is the Tres Perlas Pit

Rex L. Outzen
Senior Vice President, Operations and Andacollo General Manager

Andacollo Operations

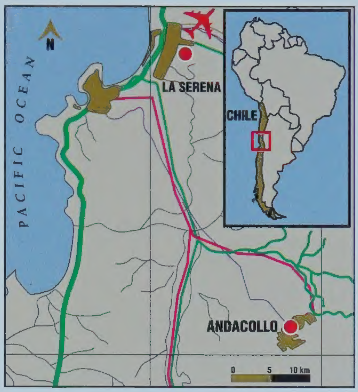
The 100% owned Andacollo Gold Mine is located in central Chile, near the coastal city of La Serena. Mining is by open pit methods and treatment of ores is by a typical heap leach process which produces dore gold bars onsite.

Current mine production is from 3 deposits, Tres Perlas, Tres Perlas West and Socorro. The mine production in 1996 was 4,482,000 tonnes, and is expected to increase to 6,600,000 tonnes by 1998.

1996 Production

The mine produced 87,650 ounces of gold at a cash cost of US$205 per ounce in 1996, Andacollo's first year of commercial production.

Mine production for the year came primarily from the Tres Perlas pit. Development of the Tres Perlas West Deposit was initiated with stripping commencing in July 1996 and mining of ore commencing in December 1996. Stripping activities in the higher grade Socorro Pit commenced in January 1997, approximately three months behind schedule due to preliminary development and access problems on the top benches, and positive drill results to the north which required the Socorro pit to be redesigned.



The work index in a limited area of the Tres Perlas pit increased from 14 to 21 during the year. This area also contained irregular fracture planes which resulted in large boulders when blasted. These boulders plugged the primary crusher and required secondary blasting. A number of modifications were made to the coarse ore bin at the primary crusher in February of 1997 and a number a changes were made to blasting techniques which eventually remedied the situation. This experience had a severe negative impact on production in the second half of 1996.

Summary	1996 Production
Ore	4,480,000 tonnes
Ore crushed	4,360,000 tonnes
Grade	1.05 g/t
Gold produced	87,650 ounces
Mining cost	$1.21 per tonne
Process cost	$2.42 per tonne
Administration cost	$0.50 per tonne
Cash cost	$205 per ounce

In metric and US Dollars

A number of improvements were made in the processing area during the year. Modifications were made to the crushing circuit which increased daily throughput capacity by 20% to 14,500 tonnes per day. A leach pad expansion was completed which doubled the size of the existing pad and will allow leach operations to continue uninterrupted through the end of 1998.

Current and Future Developments

The Tres Perlas, Tres Perlas West, Churrumata, and Natalia Deposits are being combined into one pit, called the East Pit. This will result in a reduced strip ratio and increased gold reserves. The multiple pits allow flexibility in mine planning as the economic parameters are re-evaluated annually to accommodate new ore resulting from the continuing exploration program at Andacollo.

A major process facility expansion is currently underway which will increase the current plant capacity by a further 25% to 18,200 tonnes per day. Modifications include the addition of a third tertiary crusher to increase crusher throughput and doubling of the number of carbon tanks in the process plant to increase the solution flow rate through the plant from 3,000 to 6,000 gallons per minute. Completion is expected in the fourth quarter of 1997.

The heap leach pad will be further expanded over the next two years to accommodate the increased production.

opposite page:
overview of the Andacollo leach pad and processing plant

opposite page insert:
leach pad stacker

above:
carbon adsorption and refining plant at Andacollo

right:
tertiary crushers

Plan view of Andacollo Property

Exploration Review

During 1996, Dayton's exploration emphasis was on the Andacollo mine area where nearly 30,000 meters of drilling was completed in 176 holes. This work resulted in a significant increase to both resources and reserves plus the discovery of a new geological environment for gold mineralization. The total gold resource increased by 700,000 ounces and, after replacing the ounces that were mined during 1996, the mineable reserves increased by 247,000 ounces at a finding cost of US$3.00 for resources and US$6.40 per ounce for reserves.

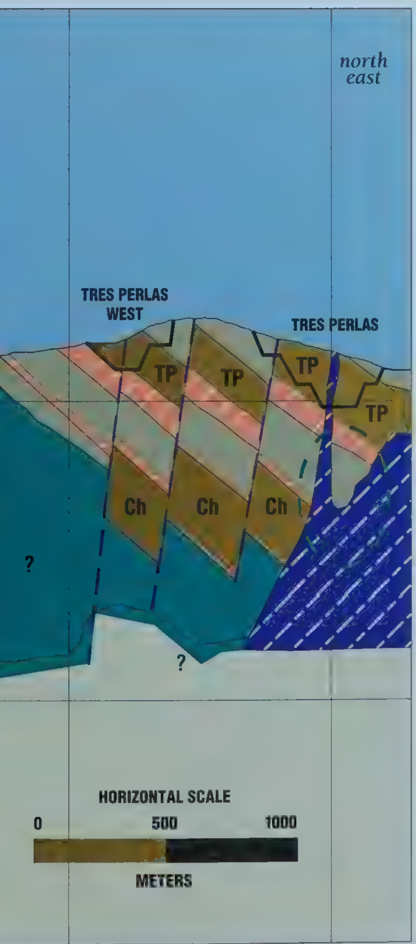
In addition to the work at Andacollo, Dayton's exploration personnel reviewed numerous exploration opportunities worldwide. Dayton is well positioned for aggressive exploration and reserve growth due to its strong cash position and experienced team of exploration professionals.

Dayton has a 1997 exploration budget of approximately US$4 million to continue the program at Andacollo and to pursue opportunities worldwide.

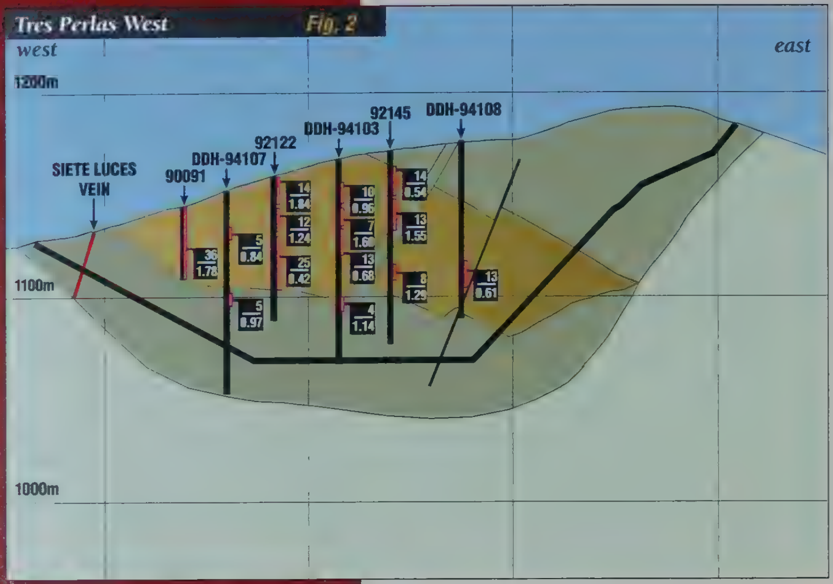
Andacollo Exploration

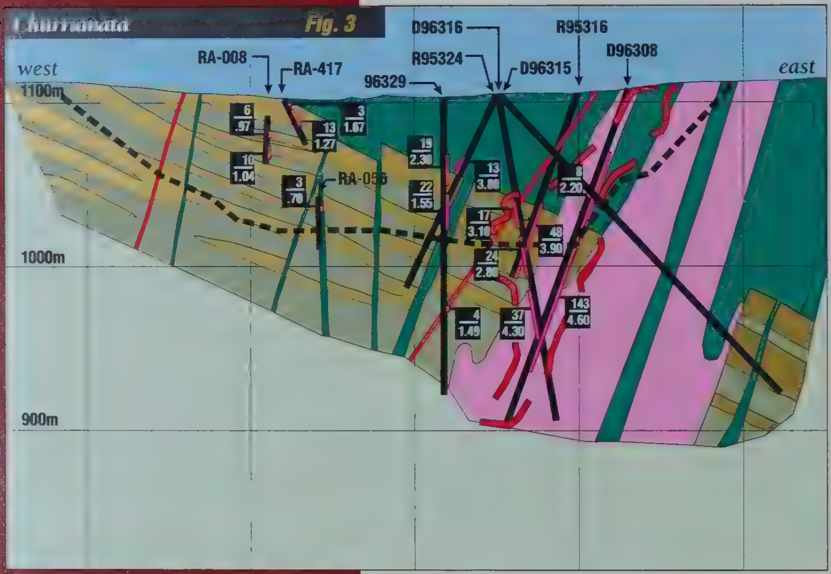
The Andacollo district occurs in Chile's Coastal Cordillera, within a Cretaceous in age volcanic-plutonic arc. The Quebrada Marquesa formation, consisting of volcanic flows with pyroclastic and sedimentary units, is the main host for the gold mineralization. Within this formation, gold mineralization occurs within dacite and andesite units, locally referred to as mantos; within andesites both above and below the mantos; and within a contact breccia zone located between diorite intrusions and the manto units.

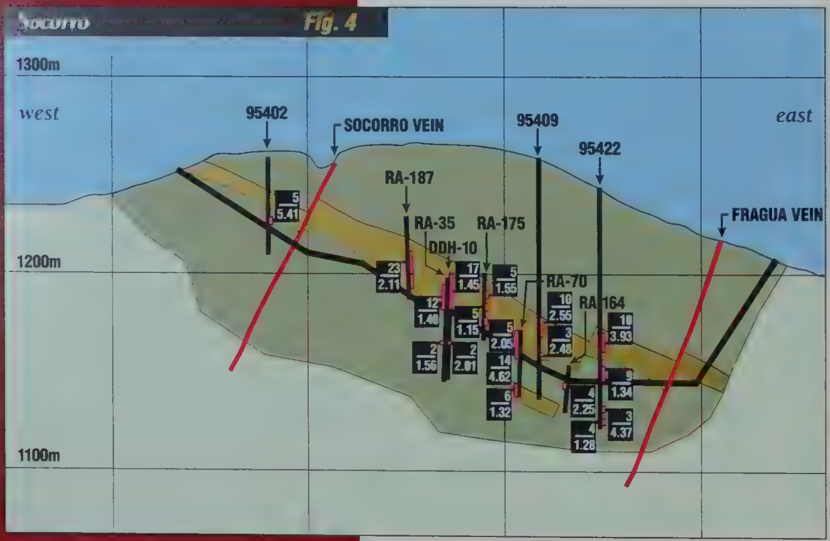
The majority of Andacollo gold reserves occur within three distinct manto units. These three manto units are Tres Perlas, Churrumata and Socorro. They all strike north south and dip easterly at between 15 and 40 degrees. During 1996, gold mineralization was discovered within a contact breccia zone between a diorite intrusion and the



Selected drill holes showing generalized geology and assay intercepts







legend

- Igneous Breccia
- Diorite Stocks and Dikes
- Rhyolite and Andesite Volcanics
- Dacite manto
- Contact Breccia zone
- Drill holes
  - R - reverse circulation percussion
  - D - diamond drill
- Gold intercept
- Veins
- Faults
- Pit Outlines
- 14 meters
- 1.84 g/tonne gold

Churrumata manto unit. This contact breccia zone locally contains high-grade gold values over thick intervals and represents a previously unrecognized geological environment for gold mineralization at Andacollo. This discovery creates new exploration targets at Andacollo.

Structurally, several major north-south trending faults and a series of younger northwest-trending veins and shear zones cut the Andacollo mine area. The combination of the north-west and north-south structures play an important role in providing conduits for transporting mineralizing fluids into the favorable manto units.

Prior to 1996, just over 100,000 meters of drilling had been completed on the Andacollo property. This drilling averaged approximately 100 meters in depth, was almost exclusively reverse circulation rotary drilling and focused on outlining manto hosted gold mineralization.

During 1996, US$2.5 million was spent on exploration at Andacollo with approximately 24,000 meters of reverse circulation drilling and 5,500 meters of core drilling. Exploration focused on developing gold mineralization within andesites beneath the mantos and on developing mineable reserves associated with the recently discovered contact breccia zone at Churrumata. Exploration targets exhibiting geological characteristics similar to the contact breccia zone were also identified and tested resulting in a mineable reserve being developed at the Chisperos deposit.

In 1996, Dayton acquired two significant property parcels within the Andacollo district. One acquisition provides Dayton with exploration opportunities north of the leach pad area and adjacent to the Socorro pit. The other property was acquired through a land exchange with the copper mining company adjacent to Dayton's operation and provides room to expand the Churrumata reserves.

Dayton's 1997 budget for Andacollo exploration is US$3.2 million. The exploration program has several priorities including converting resources into mineable reserves, extending exploration away from previously identified resources and reserves and developing new exploration targets on the property. Geological environments favorable for hosting higher grade gold mineralization, such as contact breccia, will be given priority. Areas of particular interest are the Chisperos area, extensions of the contact breccia zone at Churrumata and areas north of the Socorro pit. During 1997, a deep core drilling program will be undertaken at Andacollo. The objective of this program is to better understand the geological controls of known gold mineralization and to identify possible deep-level exploration targets. The first phase of the deep drilling program involves six diamond drill holes drilled to depths of approximately 500 meters each.

Gold resources have been identified at Andacollo in eight deposits. Six of the most advanced reserve deposits are discussed below with some of the more significant assay intercepts received from these deposits in 1996 shown in the accompanying tables.

Tres Perlas Deposit

The Tres Perlas deposit makes up nearly 37 percent of the mineable gold at Andacollo and was the first deposit to be mined. At Tres Perlas the 100 to 130 meter thick dacite manto hosts the majority of the gold mineralization; however, gold mineralization also occurs in the andesite units below the manto, particularly in a well-developed zone characterized by manto style alteration.

Tres Perlas

	Interval			Grade
Drillhole No.	From	To	(m)	gpt
96001	118	130	12	1.38
96005	84	87	3	3.61
96008	0	26	26	1.42
	24	40	16	0.81

Eight holes totaling 1,713 meters were completed at Tres Perlas during 1996. The primary drill target was gold mineralization within andesite units underlying the manto. During 1997 Tres Perlas will be the location of at least one deep core hole and will target the manto-altered zone of mineralization and possible source intrusions for gold mineralization.

Tres Perlas West Deposit

The Tres Perlas West deposit is a faulted extension of the Tres Perlas deposit with manto thicknesses and characteristics similar to Tres Perlas. Mining began at Tres Perlas West late in 1996.

The Tres Perlas West deposit contains pervasive gold mineralization in the andesite unit below the manto. This mineralization is amenable to being converted into mineable reserves due to its favorable topographical setting. During 1996 a significant effort was made to develop gold mineralization in the andesite below the Tres Perlas West manto.

Forty-one holes totaling 4,272 meters were drilled in Tres Perlas West during 1996. This resulted in an 117,000-ounce increase in the resources with the majority of this addition coming from andesite-hosted mineralization.

Tres Perlas West

	Interval			Grade
Drillhole No.	From	To	(m)	gpt
96103	35	65	30	0.90
96113	19	40	21	0.77
	46	73	27	1.07
96118	0	43	43	0.70
96122	15	30	15	1.03
	38	48	10	4.89
96129	16	29	13	0.80
96132	10	19	9	1.02
	43	47	4	2.26
96136	172	183	11	1.38
	218	232	14	1.88
D96137	69	73	4	5.27
96138	20	34	14	10.67
D96139	20	29	9	2.30
	69	74	5	4.29
D96140	8	19	11	0.85
	38	40	2	8.26

Churrumata

Drillhole No.	From	Interval To	(m)	Grade gpt
96304	62	76	14	0.94
	135	143	8	1.19
96306	6	8	2	2.50
	51	70	19	1.21
	94	109	15	1.43
	118	125	7	2.24
	128	146	18	2.05
96307	61	74	13	1.98
	82	105	23	2.75
	110	130	20	2.10
D96308	5	19	14	0.61
	39	182	143	4.63
RAD96309	78	86	8	1.34
96310	22	30	8	10.71
	24	25	1	490.79
	41	44	3	1.69
	74	84	10	0.86
	95	143	48	2.78
	128	129	1	29.60
	138	139	1	38.52
96312	67	77	10	0.97
	124	160	36	1.43
96313	48	93	45	0.76
	105	131	26	3.14
D96314	83	93	10	0.77
	116	123	7	1.88
D96315	80	88	8	2.24
D96316	68	85	17	3.08
	90	114	24	2.85
	124	161	37	4.32
D96317	79	83	4	0.56
	144	164	20	1.12
96319B	63	92	29	1.82
	112	120	8	2.51
	173	175	2	7.35
96323	25	27	2	1.25
	60	84	24	6.26
	138	156	18	2.01
	165	177	12	7.30
96325	58	64	6	7.43
	102	119	17	2.39
96328	70	84	14	1.43
	97	116	19	1.69
	119	127	8	1.90
	154	164	10	1.76
96329	34	53	19	2.30
	58	80	22	1.55
96331	26	30	4	4.47
	58	63	5	1.84
	90	104	14	2.04

Churrumata Deposit

The Churrumata manto unit and associated contact breccia zone contains the second largest gold deposit on the Andacollo property. Alternating dacite and andesite units characterize the 80-meter thick Churrumata manto unit. Gold mineralization at Churrumata also occurs within hydrothermal and igneous breccias localized along the contacts of a diorite dike complex with the Churrumata manto stratigraphy. This contact breccia zone provided a significant increase in both the resources and reserves at Andacollo in 1996.

Sixty holes totaling nearly 11,300 meters were drilled in Churrumata during 1996. This drilling resulted in a nearly 415,000 ounce increase in resources. Included in the drilling was a 450-meter deep core hole that penetrated a variety of intrusive rocks as well as both the Churrumata and Socorro mantos. Significant gold mineralization was intercepted in the hole, but ore-grade material was not encountered at depth.

Churrumata *continued*

Drillhole No.	From	Interval To	(m)	Grade gpt
D96336	120	125	5	5.11
	142	154	12	1.30
	158	163	5	1.34
96338	78	104	26	0.54
	108	130	22	1.01
	157	161	4	2.30
96341	26	44	18	0.96
	87	95	8	2.16
	104	125	21	1.81
96342	10	22	12	0.80
	40	46	6	1.22
96348	52	64	12	1.30
	71	97	26	1.09
	112	140	28	1.49
96350	83	112	29	1.07
	123	139	16	0.60
	175	191	16	0.84
96351	55	57	2	34.68
	66	84	18	2.20
96352	81	95	14	0.63
	115	124	9	1.29
	157	204	47	1.46
96353	43	50	7	3.52
	59	68	9	1.40
	90	111	21	3.98
	148	155	7	1.60
D96359	91	96	5	2.24
	106	122	16	1.74
RAD-96360	0	6	6	2.49
	15	25	10	2.45
	96	109	13	1.18
	266	269	3	9.33
	301	313	12	0.84

During 1997, exploration at Churrumata will focus on extending the contact breccia zone to both the north and south, as well as on defining additional manto mineralization downdip. The Churrumata area will also be the site of at least two deep diamond drill holes.

Natalia Deposit

The Natalia deposit overlaps the north end of the Tres Perlas deposit and occurs in the Tres Perlas manto unit. However, unlike Tres Perlas, the Natalia deposit consists of a northwest trending vein system which hosts overall higher gold grades than manto mineralization alone.

During 1996, 14 holes totaling 3,051 meters of drilling were completed at Natalia. This drilling targeted both the northwest striking vein system and provided data to support connecting Tres Perlas and Natalia together in a single mine design.

Natalia

	Interval			Grade
Drillhole No.	From	To	(m)	gpt
96051	35	52	17	1.35
	106	131	25	1.44
	158	175	17	0.68
	217	236	19	0.68
96052	123	147	24	1.59
	216	220	4	3.47
96055	37	54	17	1.59
96056	52	78	26	0.60
	90	112	22	0.67
	178	220	42	1.85
96057	86	92	6	1.72
	175	206	31	0.67
D96059	76	86	10	1.29
	213	228	15	0.96
	237	262	25	1.60
	272	304	32	2.52
96062	1	26	25	0.91
	64	70	6	2.67
D96063	66	70	4	1.67
	160	192	32	0.48
D96064	66	79	12	1.37

Socorro Deposit

Socorro is the highest-grade deposit identified on the Andacollo property with a resource average grade of over one-gram of gold per tonne. In the Socorro deposit, manto mineralization is hosted within dacite flow breccias averaging 20 meters thick. Andesite hosted mineralization occurs both above and below the dacite unit. The Socorro manto unit is cut by steeply dipping, high grade mineralized structures that probably served as mineralization feeders for both the manto and andesite units.

Two holes totaling 364 meters were drilled in Socorro during 1996. These holes were intended to test the distribution of gold mineralization in the andesite unit above the Socorro manto. Ore grade mineralization was encountered in this drilling which may reduce the stripping ratio associated with mining the Socorro deposit.

During 1997, additional drilling will test possible along strike extensions of the Socorro manto to the north, within recently acquired ground.

Overburden stripping in preparation for Socorro pit development began in early 1997.

Socorro

	Interval			Grade
Drillhole No.	From	To	(m)	gpt
96401	102	111	9	4.08
	134	143	9	1.06

Chisperos				
	Interval			Grade
Drillhole No.	From	To	(m)	gpt
96501	30	54	23	1.02
	60	80	20	1.61
	87	128	41	2.11
96502	67	78	11	1.27
96510	2	43	41	2.09
	50	63	13	2.31
	69	105	36	0.95
96511	100	120	20	0.80
96514	132	145	13	3.42
	8	33	25	1.66
96515	99	111	12	2.40
96516	2	13	11	1.02
	52	67	15	2.68
	71	78	7	1.95
96524	81	106	25	2.59
	1	20	19	0.76
96525	55	66	11	1.36
96526	21	38	17	1.92
D96527	46	55	9	4.51
	39	51	12	2.41
	54	56	3	4.25
	62	83	21	1.66
	92	105	13	1.14
96531	109	122	13	2.33
D96536	77	86	9	2.08
	133	134	1	19.58
D96537	58	72	14	1.55
	48	59	11	5.32
	67	78	11	2.21

Chisperos Deposit

The Chisperos deposit occurs in Churrumata manto units and, like Natalia, it contains higher-grade northwest striking structures. These structures are cut by north-south structures that have localized diorite dikes and stocks.

Due to the geological similarities between Chisperos and the Churrumata contact breccia zone, Chisperos became a high priority exploration target late in 1996. A total of 4,718 meters of drilling was completed in 38 holes at Chisperos during the year. This drilling resulted in outlining a resource of 120,000 ounces of gold.

Chisperos will continue to be a high priority exploration target during 1997.

Andacollo Exploration Update

During the first quarter of 1997, 6,200 meters of drilling was completed in 31 holes. The targets receiving the most attention have been Chisperos and Churrumata. At Chisperos several drill intercepts in excess of 10 meters in thickness and grading over 2 grams of gold per tonne have been encountered. At Churrumata, the contact breccia zone continues to be developed to the north of the Churrumata deposit with drill hole intercepts of nearly 20 meters grading between 2 and 4 grams of gold per tonne encountered.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12

Andacollo
Reserves

The 1996 resource and reserve estimate at the Andacollo property was completed by Mine Reserve Associates of Denver, Colorado.

In 1996 the Andacollo operation sourced ore from two separate pits, the Tres Perlas and Tres Perlas West deposits. Gold mineralization occurs within the manto units, in andesite that both underlie and overlay the manto units, and from a contact breccia zone that occurs at the contact of the Churrumata manto unit and a diorite intrusive.

A significant aspect of the 1996 minable reserve estimate is the consolidation of the Natalia, Tres Perlas, Tres Perlas West and Churrumata deposits into a single pit. This consolidation results in shared stripping between the various deposits and consequently a reduced stripping ratio.

Andacollo Gold Reserves

The December 31, 1996 resource and reserve estimate at the Andacollo property was completed by Mine Reserve Associates of Denver, Colorado. Dayton personnel completed the mid-year 1997 interim resource estimate.

Category	Tonnes (000's)	Gold Grade (grams/tonne)	Contained Gold Ounces
Mineable Reserve 1996 (1)*	**54,676**	**0.885**	**1,505,000**
Resources 1996 (2)*	**76,075**	**0.590**	**1,443,000**
Resources added during the first half of 1997 (2)	**5,614**	**1.572**	**284,000**
Total	**136,365**	**0.737**	**3,232,000**

(1) Proven and probable only
(2) Reported at a cutoff grade of 0.3 grams of gold per tonne
**** as at Dec 31, 1996***

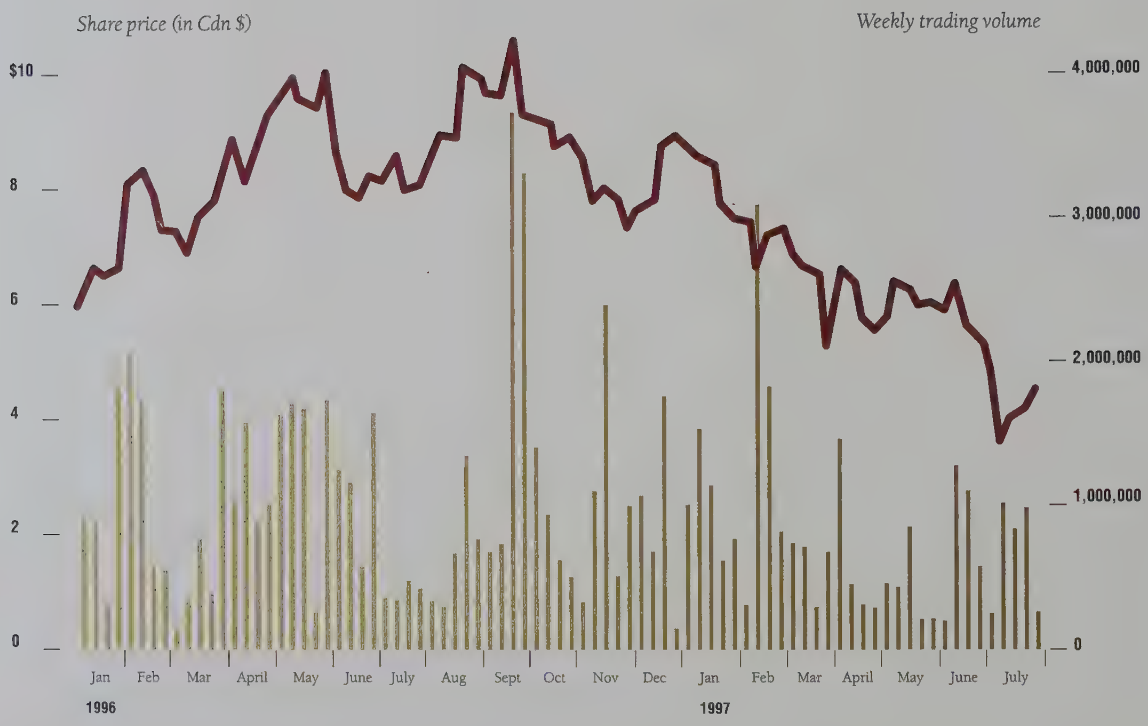
opposite page:
mining in Tres Perlas West pit at Andacollo

Share Performance and Market Analysis

(Combined AMEX and TSE) The common shares of Dayton Mining Corporation are publicly traded on the American Stock Exchange (AMEX) and the Toronto Stock Exchange (TSE)

During 1996, Dayton shares returned an impressive gain of 58.3%. During this same period the TSE Gold Index gained 8.5% while the gold price declined nearly 5%.

In the first half of 1997 all gold equities, including Dayton, have been negatively impacted by the depressed gold market and bullion prices



Management's Discussion & Analysis of Financial Condition & Results of Operation

This discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and the related notes which have been prepared in accordance with accounting principles generally accepted in Canada. Differences from United States generally accepted accounting principles are described in the consolidated financial statements.

Dayton's only current mining project with identified mineable ore reserves is the 100% owned Andacollo Gold Mine in central Chile. Commercial operations began at the Andacollo Gold Mine on January 1, 1996. Approximately 87,650 ounces of gold were produced in 1996, at a cash operating cost of US$205 per ounce. In 1996 the Company realized an average price of US$389 per ounce.

General

In 1994 the Company secured the necessary financing to construct a 14,000 ton per day heap leach gold facility at its Andacollo Gold Mine. The Company raised $32.5 million in an equity offering, and negotiated a US$50 million credit facility with a consortium of European banks. Construction commenced during that year and was completed in September 1995, with full commercial production commencing in January 1996.

In July 1994, the Company signed fixed price construction contracts to construct the heap leach facility at Andacollo. The prices were fixed on values based on US and Chilean currencies equivalent to US$46.8 million. Construction was completed in September 1995.

In October 1994, the Company formally signed and started to drawdown the US$50 million bank credit facility ("Credit Facility"). This facility was fully drawn down by September 1995 and was for a maximum term of approximately five years. Under the terms of the facility, minimum quarterly payments of one-fourteenth of the amount borrowed, were required commencing October 1996. In addition to the minimum required payments, a portion of the principal outstanding is to be repaid based on the project's cash flow.

In October 1996, the Company successfully achieved "Full Completion" under the terms of its credit facility. Full Completion included passing a series of operating, performance and economic tests. As a result of achieving Full Completion, the Company was released from certain covenants under the facility and secured a reduction in its financing interest rate.

In February 1997 the Company raised US$69 million (US$66.4 million net of commission and expenses) in a convertible debenture offering, part of the proceeds of which will be used to repay the loan.

Results of Operations

1996 compared with 1995

The net loss for the year decreased from $3,526,000 or $0.12 per share in 1995 to $3,409,000 or $0.10 per share in 1996. Revenues from gold sales were $45,996,000 in 1996, operating cost of sales were $24,545,000 and depreciation, depletion, and amortization was $11,104,000 in 1996 with no equivalent in 1995. These generated a net income from gold mining activities of $10,347,000 which was offset by an increase in expensed interest and financing charges of $8,662,000 and an increase in general and administrative expenses of $2,496,000 due to increased personnel and mine related administrative costs. Interest income increased by $602,000 as a result of higher average cash balances from the proceeds of the special warrants financing completed in January 1996.

1995 compared with 1994

The net loss for the year increased from $1,476,000 or $0.06 per share in 1994 to $3,526,000 or $0.12 per share in 1995. The increased loss resulted from a $650,000 increase in administrative costs, largely due to salaries of new staff hired in 1994 and 1995, a $449,000 increase in exploration expenses mainly in Africa, a change in foreign exchange from a gain in 1994 of $409,000 to a loss in 1995 of $195,000, and a reduction in interest income of $305,000 resulting from lower cash balances and interest rates.

1994 compared with 1993

The net loss for the year increased from $642,000 or $0.02 per share for 1993 to $1,476,000 or $0.06 per share for 1994. The increased 1994 loss resulted largely as there was no equivalent in 1994 to the forfeited deposit of $1,168,000 that occurred in 1993. For 1994, the increase in general and administrative expenses of $787,000 was offset by an increase in interest income of $558,000, an increase in the foreign exchange gain of $355,000 and a decrease in interest, financing costs and deferred foreign exchange amortization on long term debt of $421,000.

Liquidity, Capital Resources and Financial Condition

For 1996 cash provided by operating activities was $8.2 million compared with cash provided by operating activities of $9.3 million in 1995. In 1996 cash flow from operations increased by $13.3 million which was offset by a reduction in non-cash working capital of $14.4 million. The non-cash working capital decrease consisted primarily of a $6.1 million increase in the current portion of the bank loan and capital lease and a $5.3 million recovery of value added tax in 1995 with no equivalent in 1996.

Cash provided by financing activities in 1996 was $16.1 million compared with $29.2 million in 1995. Share capital issued in 1996 was $4.0 million from stock options, $0.7 million from warrants, and $15.3 million from special warrants compared to $1.2 million from stock options in 1995. Bank loan repayments in 1996 were $4.8 million compared with bank loan drawings of $23.0 million in 1995.

Cash used for investing activities decreased from $62.0 million in 1995 to $14.2 million in 1996 as a result of the substantial completion of the Andacollo Gold Mine in 1995.

As part of the Company's cost hedging program, US$15,600,000 of the initial loan drawdown in October 1994 was used to purchase Chilean currency denominated term deposits. These term deposits matured over the term of the construction period and were used to fund the portion of the construction costs that were denominated in Chilean currency.

Assuming the Andacollo Gold Mine achieves its projected gold production levels and operating costs, the profitability and liquidity of the Company is most significantly influenced by the price it obtains for the sale of gold. The Company has hedged this gold price risk by acquiring puts that give the Company the right to deliver gold, at monthly intervals, at US$380 per ounce if the then current price of gold is below that level. The cost of these puts was entirely funded by the sale of calls that give the acquirers the right to buy gold from the Company at prices ranging from US$385 to US$434 per ounce. At December 31, 1996 there were 199,500 ounces of puts and 94,160 ounces of calls outstanding.

This gold hedge program assures, during the next two years of operation, a minimum price of US$380 per ounce for approximately 75% of the Company's anticipated gold production, while at the same time only locking in the sale price of approximately 30% of the anticipated production in those two years if gold is above approximately US$397 per ounce. The Company anticipates using further hedging strategies in future years to manage its exposure to price risk. In 1996 the Company realized an average price of US$389 per ounce.

Capital expenditures of US$9 million (excluding leased mining equipment) are planned in 1997, and relate largely to capacity expansion at the Andacollo Gold Mine which is expected to be completed in the fourth quarter of 1997. These expenditures are expected to be funded from cashflow from operations and available cash. In addition, the Company plans to spend approximately US$3 million on exploration and also plans to expend funds on corporate development activities in 1997.

The Company is committed to constructing and operating its projects to minimize the effects of its operations on the environment. The design criteria and construction plan for the Andacollo Gold Mine generally reflect U.S. standards and practice for environmental protection and exceed the requirements of current environmental laws and regulations in Chile. The Company is not aware of any proposed change in such laws and regulations which would require a change in the manner in which it operates the Mine. The Company has developed a closure plan for the Mine and has established and is accruing for this purpose at the rate of US$0.02 for each ton of ore processed.

Inflation and Changing Prices

The Andacollo Gold Mine commenced commercial production in January 1996 and until then was not directly affected operationally by trends with relation to the price of gold or inflation costs. The price of gold is unpredictable and affected by many factors beyond the control of the Company. The Andacollo Gold Mine is a low cost gold producer and is less sensitive to changes in the price of gold. The Company has entered into gold option contracts to assure minimum revenues of US$380 per ounce over approximately 200,000 ounces of future production.

The Andacollo Gold Mine is located in Chile which is presently considered a desirable location for gold mining. Operating costs will, however, be affected by local inflation rates, which have been declining steadily in recent years, and the Chilean exchange rate. No satisfactory current market exists for long term hedging of Chilean currency, but in view of the relatively low anticipated operating cost per ounce of the Andacollo Gold Mine, in relation to the hedged gold price of US$380 per ounce, the Company considers continuance of the strengthening of Chilean currencies unlikely to have a material effect on the Company's liquidity.

Outlook

Construction of the heap leach gold extraction facility at Andacollo was completed in 1995 and full commercial production began in January 1996. In 1996, ore throughput at the Andacollo Gold Mine was increased from the design rate of 14,000 tons per day to a capacity of 16,000 tons per day. The mine produced 87,650 ounces of gold in 1996 at a cash cost of US$205 per ounce. Lower production and higher costs than expected resulted from: (i) blasting complications which are believed by management to now be resolved; (ii) a longer leach cycle which did not result in the loss of gold but rather a longer time to recover the gold; and (iii) a strike which was settled with a four year contract on terms considered reasonable by the Company's management. Gold production in 1997 is expected to be approximately 130,000 ounces at a cash cost of approximately US$200 per ounce.

In February 1997 the Company raised proceeds of US$69 million (US$66.4 million net of commission and expenses) by issuing convertible debentures. Each US$1,000 convertible debenture will be convertible into approximately 157 common shares of the Company, subject to certain anti-dilutive provisions. The Company intends to use these proceeds for the repayment of the loan, possible future acquisitions, and expanded plant capacity.

The Company will continue its world-wide program of exploration and corporate development activities, and has allocated significant funds for these purposes in 1997.

Management's Responsibility for Financial Reporting

To the Shareholders of Dayton Mining Corporation

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through activities of its Audit Committee composed of three directors, none of whom are members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors Coopers & Lybrand, in accordance with generally accepted auditing standards. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

Wayne D. McClay
President and Chief Executive Officer

R.J. MacDonald
Senior Vice President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of Dayton Mining Corporation

We have audited the consolidated balance sheets of Dayton Mining Corporation as at December 31, 1996 and 1995 and the consolidated statements of loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The consolidated financial statements for the year ended December 31, 1994 were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated May 2, 1995.

Coopers & Lybrand
Chartered Accountants

Vancouver, British Columbia
March 20, 1997

Consolidated Balance Sheets

at December 31 | *in thousands of Canadian dollars*

	1996 $	1995 $
Assets		
CURRENT ASSETS		
Cash and short-term investments (note 6)	22,114	11,982
Bullion settlements receivable	2,021	1,916
Accounts receivable	1,002	1,331
Inventories (note 3)	7,797	3,487
Total current assets	32,934	18,716
PROPERTY, PLANT AND EQUIPMENT (note 4)	121,643	118,381
OTHER ASSETS (note 5)	3,497	5,591
	158,074	142,688
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	6,660	4,985
Bank loan – current portion (note 7)	4,897	4,879
Capital lease payable – current portion (note 8)	2,712	1,978
Total current liabilities	14,269	11,842
LONG-TERM LIABILITIES		
Bank loan (note 7)	58,766	63,431
Capital lease payable (note 8)	7,071	6,449
Other accrued liabilities	981	563
Total long-term liabilities	66,818	70,443
Total liabilities	81,087	82,285
Shareholders' Equity		
SHARE CAPITAL (note 9)	90,487	51,968
1996 – 40,807,779 common shares		
1995 – 30,462,128 common shares		
CONVERTIBLE DEBENTURES (note 9)	–	18,526
DEFICIT	(13,500)	(10,091)
Total shareholders' equity	76,987	60,403
	158,074	142,688

Approved by the Board of Directors:

Director Director

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Loss

for the years ended December 31 — *in thousands of Canadian dollars*

	1996 $	1995 $	1994 $
REVENUES			
Gold sales (net of royalties and refining)	45,996	–	–
COST OF SALES			
Operating cost of sales	24,545	–	–
Depreciation, depletion and amortization	11,104	–	–
Total cost of sales	35,649	–	–
	10,347	–	–
EXPENSES			
General and administrative expenses	4,975	2,479	1,829
Exploration	600	679	230
Foreign exchange	(52)	195	(409)
Amortization of deferred financing costs	2,219	–	–
Interest expense	6,934	491	449
Interest income	(920)	(318)	(623)
Total expenses	13,756	3,526	1,476
NET LOSS FOR THE YEAR	(3,409)	(3,526)	(1,476)
LOSS PER SHARE	($0.10)	($0.12)	($0.06)
Weighted average common shares outstanding ('000s)	35,477	29,962	24,737

Consolidated Statements of Deficit

for the years ended December 31 — *in thousands of Canadian dollars*

	1996 $	1995 $	1994 $
DEFICIT – BEGINNING OF YEAR	(10,091)	(6,565)	(5,089)
NET LOSS FOR THE YEAR	(3,409)	(3,526)	(1,476)
DEFICIT – END OF YEAR	(13,500)	(10,091)	(6,565)

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows

for the years ended December 31 — *in thousands of Canadian dollars*

	1996 $	1995 $	1994 $
OPERATING ACTIVITIES			
Net loss for the year	(3,409)	(3,526)	(1,476)
Adjustment to reconcile net loss to cash provided by operating activities:			
Depreciation, depletion and amortization	11,104	–	–
Amortization of deferred financing costs	2,219	–	–
Amortization of deferred foreign exchange	(92)	–	–
Amortization of deferred lease inducement	(15)	(14)	(21)
Amortization of other assets	39	58	28
Cashflow from (for) operations before working capital adjustments	9,846	(3,482)	(1,469)
Change in non-cash working capital (note 16)	(1,645)	12,752	(8,300)
Cash provided by (used for) operating activities	8,201	9,270	(9,769)
INVESTING ACTIVITIES			
Property, plant and equipment	(14,366)	(61,763)	(35,856)
Other assets	148	(256)	(5,702)
Cash used for investing activities	(14,218)	(62,019)	(41,558)
FINANCING ACTIVITIES			
Share capital	38,520	1,155	32,740
Convertible debentures	(18,526)	–	–
Bank loans	(4,836)	23,067	40,407
Capital lease obligation	573	6,499	–
Construction costs financed	–	(2,130)	2,130
Other accrued liabilities	418	563	–
Cash provided by financing activities	16,149	29,154	75,277
NET INCREASE (DECREASE) IN CASH	10,132	(23,595)	23,950
CASH – BEGINNING OF YEAR	11,982	35,577	11,627
CASH – END OF YEAR	22,114	11,982	35,577

CASH – END OF YEAR CONSISTS OF:			
Cash	22,114	11,982	7,741
Restricted cash	–	–	27,836
CASH – END OF YEAR	22,114	11,982	35,577

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996 *tables stated in thousands of Canadian dollars*

1 Nature of Operations

The Company owns the Andacollo Gold Mine, an open pit, heap-leach mine in Chile. The mine commenced commercial production on January 1, 1996.

2 Significant Accounting Policies

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with generally accepted accounting principles (GAAP) applicable in Canada and have been reconciled to generally accepted accounting principles applicable in the United States as disclosed in note 17.

PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Company's wholly owned subsidiaries, Dayton Mining (U.S.) Inc., DMC Cayman Inc., Andacollo Gold Inc., La Serena Inc., Dayton Chile Exploraciones Mineras Limitada and Compañía Minera Dayton.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and are depreciated using the units of production method over proven and probable reserves. Revenue and operating costs in 1995 during the pre-production period were credited or charged, as appropriate, against property, plant and equipment costs.

Quarterly, reviews are undertaken to evaluate the carrying values of operating mines and development properties. If it is determined that the net recoverable amount is significantly less than the carrying value and the impairment in value is likely to be permanent, a write-down to the net recoverable amount is made by a charge to earnings.

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable orebody is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures for the development of new mines, to define further mineralization in existing orebodies, and to expand the capacity of operating mines, are capitalized and amortized on a units of production basis over recoverable ounces.

Costs of waste removal associated with current mining operations are expensed in the period incurred.

INVENTORIES

Production inventories, comprising ore on the leach pads and gold in process, and mine operating supplies are valued at the lower of average cost and net realizable value.

DEFERRED CHARGES

Deferred charges represent financing and foreign exchange costs on the bank loan, and foreign exchange on the Andacollo Contingency Account. These costs are being amortized using the interest method whereby amortization is calculated using the loan balance outstanding over the expected term of the debt.

REVENUE RECOGNITION

Sales of precious metals are recorded at the estimated net realizable value when the metals are available for delivery.

RECLAMATION COSTS

Reclamation costs and related accrued liabilities, which are estimated based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed principally by the units of production method based on estimated proven and probable reserves. These costs are included in general and administrative expenses.

HEDGING TRANSACTIONS

To manage its exposure to fluctuations in the market price of gold and to establish minimum prices for its future production, the Company enters into gold hedging contracts. Gains and losses on these contracts are not recognized in income until reflected in sales revenue when the related production is delivered.

TRANSLATION OF FOREIGN CURRENCY

The accounts of foreign operations are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date.
- other assets and liabilities at applicable historical exchange rates.
- revenues and expenses at the average rate of exchange for the year except for non-monetary expenses which are at the rates used for the translation of the related assets.
- exchange translation gains and losses are treated as a component of the related transaction and included in earnings or capitalized accordingly.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Cash includes cash and short-term deposits maturing within 90 days of the original date of acquisition. In order to limit its exposure, the Company diversifies its selection of counterparties for the placement of short-term deposits. The Company places its cash and short-term investments with major Canadian chartered banks or in high quality financial instruments. The Company believes that no concentration of credit risk exists with respect to cash and short-term investments.

3 Inventories

	1996 $	1995 $
Production inventory	5,202	2,740
Supplies inventory	2,595	747
	7,797	3,487

4 Property, Plant and Equipment

	1996 $			1995 $
	Cost	Accumulated Depreciation	Net	Net
Mining properties and deferred costs	39,514	(3,305)	36,209	27,393
Plant and equipment	93,233	(7,799)	85,434	90,988
	132,747	(11,104)	121,643	118,381

Included in mining properties and deferred costs is US$1,250,000 for advance minimum royalty payments, made prior to commencement of commercial production, which is being amortized over the life of the project on a units of production method (note 15).

5 Other Assets

	1996 $			1995 $
	Cost	Accumulated Amortization	Net	Net
Deferred charges:				
Financing costs	4,327	(1,180)	3,147	5,366
Foreign exchange	55	124	179	(68)
Other assets	386	(215)	171	293
	4,768	(1,271)	3,497	5,591

6 Restricted Cash

Restricted cash consists of US$5,000,000 in a restricted account which is held to satisfy the minimum principal repayments due under the terms of the bank loan. These funds will be available to the Company on an unrestricted basis if certain debt reserve requirements have been met or the loan is repaid. As described in note 18, subsequent to the end of the year, the Company raised financing sufficient for repayment of the Company's bank loan and has commenced negotiations with the lenders which will result in the removal of restrictions on this account. The funds are being invested in money market instruments and the interest income earned is received by the Company on a quarterly basis.

7 Bank Loan

In October 1994 the Company entered into a US$50,000,000 bank credit facility to finance the construction of the Andacollo Gold Mine. The credit facility is for a maximum of approximately five years and the loan principal was originally repayable in fourteen quarterly payments of approximately US$3,571,000 beginning in October 1996. Subsequent to the year end the Company has been notified by the lenders that they are in agreement with a deferral of the loan repayments. The Company made the minimum repayment in January 1997 and the next repayment is scheduled for January 19, 1998 with quarterly repayments thereafter. In addition to the minimum required repayments, on each payment date the Company is required to prepay a portion of the principal outstanding based on a percentage of excess cash flow, as defined, from the Andacollo Gold Project in the preceding six month period. Each prepayment will be applied against the then final scheduled quarterly payment.

The balance outstanding on the bank loan as at December 31, 1996 was US$46,429,000(1995: US$50,000,000). Interest is payable at the London Interbank Offer Rate ("LIBOR") plus 2.375% (1995: 2.75%). The assets of Compañía Minera Dayton have been pledged as collateral for amounts borrowed under the credit facility. Under the credit facility the Company must maintain certain financial ratios and achieve certain operating results on an ongoing basis. (See also notes 6 and 18).

8 Capital Lease

During 1995 and 1996 the Company received mining equipment whose purchase was financed by five year leases. These leases bear interest at LIBOR plus 4%, with quarterly payments. At the end of the five years, the equipment will automatically be owned by the Company. Future minimum annual lease payments, net of interest, are:

	$
1997	2,712
1998	2,712
1999	2,712
2000	1,242
2001	405
	9,783

9 Share Capital

a) **AUTHORIZED**

Authorized share capital of the Company consists of 1,000,000,000 (1995: 75,000,000) common shares without par value.

b) **ISSUED**

	Number of Shares	$
Issued at December 31, 1994	29,829,628	50,813
Stock options exercised	632,500	1,155
Issued at December 31, 1995	30,462,128	51,968
Stock options exercised	1,117,151	3,923
Conversion of debentures	6,615,000	18,526
Exercise of warrants	110,000	770
Issue of special warrants, net of expenses	2,503,500	15,300
Issued at December 31, 1996	40,807,779	90,487

c) **CONVERTIBLE DEBENTURES**

During the year ended December 31, 1996, the Company gave notice, to the holders of its convertible debentures, of its intention to redeem the debentures. Upon receiving notice of redemption, each debenture holder exercised his right of priority conversion pursuant to which each US$1,000 debenture was convertible into 441 common shares of the Company.

The total debenture amount of US$15 million (Cdn$19.8 million before issue costs of Cdn$ 1.3 million) resulted in the issue of 6,615,000 common shares.

d) **RESERVED FOR ISSUE**

During the year ended December 31, 1996, the Company granted the following stock options:

Number of Shares	Exercise Price $	Option Expiry Date
15,000	7.00	January 31, 2001
36,000	7.63	February 20, 2001
731,000	8.25	April 14, 2001
782,000		

The banks which underwrote the bank credit facility were granted options to purchase 350,000 shares at a price of $4.55 per share for a five year term expiring May 20, 1999. To December 31, 1996, the banks had exercised 262,500 of these options.

At December 31, 1996 there were 2,824,550 (1995 – 3,059,000) shares reserved for issue pursuant to the exercise of stock options by employees and directors of the Company. These options are exercisable at prices ranging from $2.35 to $8.25 (which reflect fair market value at the time the options were granted), and with expiry dates ranging from November 24, 1997 to April 14, 2001. The average price of these outstanding options is $5.32 per share.

In March 1994, the Company granted options to employees and directors to purchase 355,000 common shares at a price of $4.90 per share, expiring March 24, 1999. The Company's compensation committee originally recommended that these options be granted in November 1993 at the then market price of $3.40 per share. These options were not granted at that time because of a concern that bank negotiations that were then underway may have led to material change, which subsequently proved to have been premature. The Company has agreed to provide compensation to the employees and directors for the difference between the $3.40 and $4.90 price per share, by way of a bonus, at the time the options are exercised. The Company may have to pay up to $435,000 for these bonuses, depending on the number of options exercised (see also note 12).

In January 1996 the Company issued 2,503,500 special warrants at a price of $6.50 per special warrant for net proceeds of $15,300,000, after issue costs of $972,750. In April 1996 each special warrant was exercised into a unit consisting of one common share plus one-half of a warrant, with each whole warrant entitling the holder to purchase one share at $7.00 until July 31, 1997. An additional 100,000 warrants were issued to the underwriters as additional compensation. At December 31, 1996, 1,241,750 warrants were outstanding.

10 Hedging

The Company's gold hedging program consists of the following:

	1997	1998	1999
Put options acquired (ounces)	126,000	73,500	–
Average price per ounce (US$)	$ 380	$ 380	–
Call options sold (ounces)	40,920	45,780	7,460
Average price per ounce (US$)	$ 385	$ 408	$ 434

The credit risk exposure related to the Company's gold hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. The counterparties to the gold hedging are also lenders to the Company and are large international credit-worthy institutions.

11 Income Taxes

The Company has certain resource related deductions and other losses which are available to be offset against future taxable income. The benefits of these deductions and losses are not reflected in these financial statements as there is no virtual certainty that the benefits will be realized. The Company has tax loss carryforwards and deductions available to be utilized in future years totaling $13 million in Canada and $16 million in Chile.

12 Related Party Transactions

Private corporations controlled by the President of the Company (refer also to note 15):

a) were paid an aggregate of $596,591 during the year ended December 31, 1996 (December 31, 1995 – $610,900; December 31, 1994 – $431,933) for management fees.

b) were paid $272,275 during the year ended December 31, 1996 (December 31, 1995 – $274,920; December 31, 1994 – $273,038) for advance minimum royalty payments due under the Andacollo royalty agreement (see note 15).

Legal fees for the year ended December 31, 1996 of $153,495 (December 31, 1995 – $32,439; December 31, 1994 – $258,704) were paid or payable to a legal firm in which a director of the Company is a senior partner.

Bonuses of $97,500 were paid to employees during the year on the exercise of the $4.90 stock options referred to in note 9.

13 Segmented Information

The Company's principal activity is the development and operation of the Andacollo Gold Mine located in Chile.

IDENTIFIABLE ASSETS

	1996 $	1995 $
Canada	28,634	10,386
Chile	129,440	132,302
	158,074	142,688

REVENUES

	1996 $	1995 $
Canada	605	318
Chile	46,311	–
	46,916	318

EARNINGS

	1996 $	1995 $
Canada	(3,623)	(3,401)
Chile	214	(125)
	(3,409)	(3,526)

14 Loss Per Share

Loss per share has been calculated based on the weighted average number of shares outstanding. There is no material difference between primary loss per share and fully diluted loss per share.

15 Commitments

The Company's 100% interest in the Andacollo Gold Mine is subject to a 2% net smelter royalty payable to a private corporation controlled by the President of the Company. The terms of the royalty agreement call for minimum annual royalty payments of US$200,000 payable quarterly in arrears until an aggregate of US$5,000,000 in royalty payments have been made. To December 31, 1996 a total of US$1,450,000 had been paid, of which US$1,250,000 was paid before the commencement of commercial production and has been capitalized as mining property costs.

16 Supplementary Information

A) CHANGE IN NON-CASH WORKING CAPITAL

	1996 $	1995 $	1994 $
Bullion settlements receivable	(105)	(1,919)	–
Other receivables	330	5,621	(5,787)
Inventories and prepaid expenses	(4,310)	(2,109)	(1,378)
Accounts payable	1,688	4,274	(1,135)
Bank loan – current portion	18	4,894	–
Capital lease – current portion	734	1,991	–
	(1,645)	12,752	(8,300)

B) INTEREST PAID DURING THE YEAR

1996 $	1995 $	1994 $
6,620	1,450	1,419

17 United States Accounting Principles

The effect of the differences between Canadian GAAP and U.S. GAAP on the Company's net loss for the years ended December 31 are summarized below:

- Under Canadian GAAP, gains and losses on translation of long-term debt are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are reflected in net earnings as they arise.
- Under U.S. GAAP, any amounts due from officers for stock options exercised are not included in shareholders' equity.
- Under U.S. GAAP, for any stock options with an exercise price that is less than the market price on the date of grant, the difference between the exercise price and the market price on the date of grant is recorded as compensation expense.

The significant changes in the consolidated statements of loss and deficit relative to U.S. GAAP were as follows:

	1996 $	1995 $	1994 $
Net loss for the year, as reported for Cdn. GAAP	(3,409)	(3,526)	(1,476)
Foreign exchange gain (loss)	(247)	1,294	(1,175)
Compensation relating to stock options granted at less than market price	–	–	(533)
Net loss for the year, as reported for U.S. GAAP	(3,656)	(2,232)	(3,184)
Adjusted deficit, beginning of year following U.S. GAAP	(10,689)	(8,457)	(5,273)
Adusted deficit, end of year following U.S. GAAP	(14,345)	(10,689)	(8,457)
Weighted average number of common shares computed in accordance with U.S. GAAP (thousands of shares)	36,008	30,313	25,333
Loss per share, U.S. GAAP	($0.10)	($0.07)	($0.13)

∴ rec:

CDN deficit <13 500>

US " <14 345>

Diff. <845> ⇒ coded as #

The significant changes in the shareholders' equity section of the consolidated balance sheets relative to U.S. GAAP were as follows:

$90487 per F/S & note 9. (used 90487 for rec.)

	1996	? 1995	1994
	$	$	$
Common stock, following Cdn. GAAP	90,536	51,968	50,813
Amounts due from officers for stock options	–	–	(263)
Common stock, following U.S. GAAP	90,536	51,968	50,550
Adjusted deficit, following U.S. GAAP	(14,345)	(10,689)	(8,457)
Shareholders' equity, following U.S. GAAP	76,191	41,279	42,093

In accordance with the Financial Accounting Standards Board Statement No. 109 ("SFAS 109"), U.S. GAAP requires that income taxes be accounted for by the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement reporting and the tax bases of the assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences are expected to reverse. Such differences principally arise from the timing of income and expense recognition for accounting and tax purposes. The application of SFAS 109 would have no material effect on the assets, liabilities or operations for the years presented in these consolidated financial statements as any deferred tax assets would be eliminated by the recording of a valuation allowance. The tax benefit of the Company's loss carry forwards at December 31, 1996 would be approximately $10 million (1995 - $7 million; 1994 - $6 million).

18 Subsequent Events

Subsequent to December 31, 1996, the Company completed a US$69 million financing. Proceeds from the financing are to be used to repay the Company's bank loan. Agreement has been reached with the Company's banks to defer three principal repayments for 1997, as described in note 7. The principal payment made in January 1997 is included in current liabilities as at December 31, 1996.

Upon repayment of the bank loan, the Company will charge to income all deferred costs related to the bank loan. At December 31, 1996 these totaled $3,147,000 for deferred financing costs and $142,000 for deferred foreign exchange.

Officers & Directors

Officers and Management

Wayne D. McClay
Chairman of the Board, President and Chief Executive Officer

Rex L. Outzen
Senior Vice President, Operations and Chief Operating Officer

R. J. (Don) MacDonald
Senior Vice President, Finance and Chief Financial Officer

Richard J. Hall
Senior Vice President, Corporate Development

Diane R. Thomas
Vice President, Investor Relations

Chile Management

Enrique Quiroga
Mine Manager

Miguel A. Zuniga
Manager of Finance and Administration

Robert O. Laidlaw
Exploration Manager, Chile

Gaston di Parodi
Plant Manager

Directors

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President and Managing Director, Swicorp Financial Advisory Services S.A.
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R. J. (Don) MacDonald
Senior Vice President, Finance and Chief Financial Officer
Dayton Mining Corporation
Vancouer, BC

Wayne D. McClay ▼■
Chairman, President, and Chief Executive Officer
Dayton Mining Corporation
Vancouer, BC

▼ *Member of the Executive Committee*
◆ *Member of the Audit Committee*
■ *Member of the Compensation Committee*

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Trading Symbol: DAY

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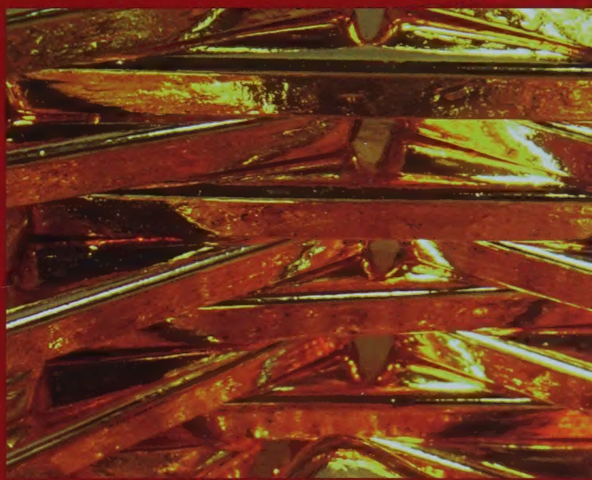

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